

# INDUSTRY CIRCULAR

OFFICE OF THE COMMISSIONER OF INTERNAL REVENUE  
ALCOHOL AND TOBACCO TAX DIVISION



WASHINGTON 25, D. C.

Industry Circular No. 61-22

May 19, 1961

## LOSSES OF SPIRITS AT BOTTLING PREMISES

To proprietors of distilled spirits  
plants and others concerned:

Provision was made in law, section 5008(c), I.R.C., effective July 1, 1959, for the allowance (within certain limitations) of tax on distilled spirits lost after payment or determination of tax and before the completion of bottling, casing, or other packaging (either with or without rectification). In general, proprietors of bottling premises have been satisfactorily complying with the provisions of law and regulations governing claims for refund or credit of tax on spirits lost in rectification and bottling operations. However certain unacceptable practices have come to our attention.

Some of the conditions which have come to light recently are: pilferage prior to completion; unrecorded replacement of broken bottles in a nearby taxpaid storeroom or wholesale liquor dealer's premises with bottles from the bottling lines; improperly kept records; failure to record completions; and, in at least one instance, the filling and labeling of cases of blended whisky as bonded whisky.

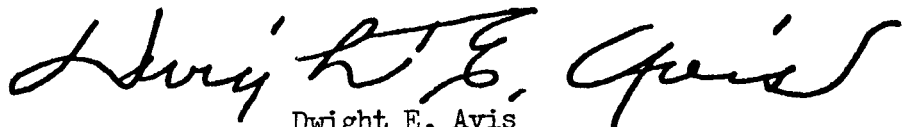
These conditions indicate that rectifiers and bottlers concerned have not developed and exercised adequate control procedures over their operations and consequently have not properly discharged their responsibilities. If you discover any unauthorized practice, it is your responsibility to take immediate steps to prevent recurrence of the irregularity. Also, it is your responsibility to determine the extent the practice has affected the accuracy of your records on which claims have been or are to be based. You should notify the internal revenue officer at your plant immediately of any such irregularity and should enlist his assistance in finding ways to prevent it from recurring and in determining the necessary corrections to be made in the records and, if affected, claims.

The seriousness of this matter cannot be overemphasized. Practices such as those enumerated in the second paragraph lead to the filing of fraudulent claims or, at the very least, to the filing of claims for losses in excess of those actually sustained. In these cases the Internal Revenue Service will take such corrective and punitive action as is available under law. In this connection your attention is invited to

section 1001, Title 18, U.S.C., and section 7206, Title 26, U.S.C., since these practices may result in your being guilty of a felony. Further, section 2514, Title 28, U.S.C., provides, in part, that "a claim against the United States shall be forfeited to the United States by any person who corruptly practices or attempts to practice any fraud against the United States on the proof, statement, establishment, or allowance thereof." Under those provisions, which are applicable in any instance where a fraudulent claim has been filed, the forfeiture runs to the entire claim.

The importance of this matter is stressed in order to emphasize that you must exert your fullest effort to insure that proper and valid claims for refund or credit of tax on spirits lost in rectification and bottling are filed.

Inquiries relating to this circular should refer to its number and be addressed to the office of your assistant regional commissioner (alcohol and tobacco tax).

  
Dwight E. Avis  
Director, Alcohol and Tobacco Tax Division